1974

Consolidated-Bathurst Limited Annual Report

43rd
Annual
Report
1974

Consolidated-Bathurst Limited

Annual meeting

Château Champlain Hotel, Montreal
April 4, 1975 — 10:30 a.m.

Corporate Data

Incorporated
August 28, 1931, under the laws of Canada

Head Office
800 Dorchester Boulevard West,
Montreal, Quebec H3B 1Y9

Transfer Agent and Registrar
Montreal Trust Company at Saint John,
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

Share Listings
Montreal Stock Exchange
The Toronto Stock Exchange

Auditors
Touche Ross & Co.

Si vous préférez recevoir votre rapport annuel en français, prière d'aviser le Secrétaire,
Consolidated-Bathurst Limitée,
C.P. 69, Montréal, Québec H3C 2R5

Valuation Day

For Canadian capital gains tax purposes, Valuation Day values as established by the Department of National Revenue are as follows:

Consolidated-Bathurst Limited	
8% Series C Debentures maturing November 15, 1993	$ 79.00
6% Cumulative Redeemable Preferred Shares, 1966 Series	11.75
Common shares	7.88
1968 Share Purchase Warrants	3.00
1966 Share Purchase Warrants	0.55
Bathurst Paper Limited	
6% Debentures, Series A, maturing January 2, 1984	73.00
6% First Mortgage Bonds, Series A, maturing January 2, 1984	72.00
5¼ % Cumulative Redeemable Preferred Shares, 1963 Series	6.75
Dominion Glass Company Limited	
9½ % Sinking Fund Debentures, Series A, maturing December 15, 1990	104.00
Common shares	$ 10.25

Contents

Results by Quarters

The charts at left, in the style of those shown on the Company's 1974 interim reports, are a summary presentation of Consolidated-Bathurst's performance over eight quarters. The first two columns indicate 1974 earnings per common share before extraordinary items compared with those of 1973. Columns of the chart to the right compare 1974 net sales with those of 1973.

Highlights

		1974	1973
Net Sales and Other Income		$693,419,000	$500,234,000
Extraordinary Items	net of taxes	14,608,000	(900,000)
Net Earnings	for the year	$ 62,320,000	$ 18,970,000
	Per common Share		
	— Basic		
	Before extraordinary items	$ 7.10	$ 2.74
	Extraordinary items	2.28	(0.14)
	After extraordinary items	$ 9.38	$ 2.60
	— Fully diluted	$ 8.30	$ 2.45
Working Capital		$133,045,000	$ 81,066,000
Additions to Property and Plant		$ 36,992,000	$ 30,242,000
Shares	Number of issued Common Shares	7,233,604	6,301,804
	Canadian Registered	85.5%	92.8%
	Book Value per Common Share	$29.66	$19.52
	Cash Flow from Operations per Common Share	$13.93	$ 7.52
Employees	Number of employees at end of year	19,900	19,100

R. A. Irwin and W. I. M. Turner, Jr.

Report of the Directors

To the Shareholders:

As detailed in this report, the Company has just completed a year of performance without parallel in its history, with revenues approaching $700 million and earnings substantially improved over those of 1973. By year-end, however, some of the concerns we commented on in last year's report were beginning to be reflected in weakened demand for a number of the Company's products.

The earnings improvement during the year was attributable primarily to high operating ratios and to sales price increases, which enabled us to keep pace with higher costs for energy, labour, transportation and materials. Earnings before extraordinary items in 1974 amounted to $47.7 million and were equivalent to $7.10 per common share. On a comparable basis, earnings in 1973 were $19.9 million or $2.74 per common share. If adjusted for the major effects of inflation, 1974 earnings before extraordinary items would be approximately $6.00 per common share and the Company's 1974 return on net assets would decline from 9% to 3%.

Net sales in 1974 were $689.0 million, compared with $497.7 million in 1973. Sales volumes improved in newsprint, pulp, glass products and industrial bags. Newsprint shipments amounted to 1,005,600 tons in 1974 compared with 964,460 tons in 1973. With the exception of lumber, all products experienced increases in sales revenue and earnings. The Company's Container Division had a 12.8% decline in volume of shipments, compared with 1973, as a result of strikes during the summer of 1974.

Earnings after extraordinary items in 1974 were equivalent to $9.38 per common share compared with $2.60 per common share in 1973. The extraordinary credit to earnings in 1974, amounting to $14.6 million, net of income taxes, reflects mainly the gain on expropriation of Anticosti Island by the Province of Quebec.

In December 1974, the Company agreed to accept from the Province of Quebec $23.8 million for Anticosti Island, with interest at 8% from April 23, 1974, the date of expropriation. Of that amount, $4.0 million was received in December and the balance will be paid on or before April 15, 1975.

Other events of 1974 included the Company's public offer for the outstanding common and preferred shares of Dominion Glass that it did not already own and the bidding between Consolidated-Bathurst and Abitibi Paper Company for control of The Price Company Limited.

The Consolidated-Bathurst cash offer to shareholders of Dominion Glass was effective May 10, 1974 and, after several extensions, expired September 10th. The offer was well received and currently the Company's holdings of Dominion Glass shares represent 96% of voting control.

In late November, Abitibi Paper Company Limited made a bid through the Montreal and Toronto stock exchanges for control of The Price Company Limited. Before the initial Abitibi offer took effect and as a step preceding our counter-bid for control, Consolidated-Bathurst issued from treasury 930,385 common shares to a group in the United Kingdom, in exchange for 1,860,770 common shares of Price Company. The Company subsequently sold 982,022 common shares of its holdings of Price Company for $24.4 million to Abitibi, in acceptance of that company's increased cash offer.

Cash flow from operations in 1974 was $91.5 million compared with $49.6 million in 1973. The increase in cash flow, the sale of Price Company common shares and the expropriation of Anticosti Island resulted in an overall improvement in working capital of $52.0 million.

In the near term, with weaker markets for some product lines, it will be difficult for the pulp and paper and related packaging industries to maintain the high production-to-capacity ratios that prevailed throughout most of 1974. Such market uncertainties result from continuing inflation and slack economies in the United States and Europe. In the months ahead, the Company will clearly be under pressure to absorb cost increases in many areas.

Because of the prohibitive cost of expansion and the related absence of large new additions to capacity, revenue prospects of the pulp and paper industry will, in the longer term, continue to be promising. Consolidated-Bathurst itself enters 1975 with a strong financial position. At year-end, working capital per common share amounted to $18.39 compared with $12.87 in 1973 and book value per common share amounted to $29.66 compared with $19.52 at the end of 1973. Furthermore, on February 26, 1975, a wholly-owned subsidiary entered into an underwriting agreement for the sale of $35.0 million 11% First Mortgage Sinking Fund Bonds, Series A to be issued at par with net proceeds estimated to be $33.9 million.

The Directors wish to express their sincere appreciation to all employees for their contribution to the unprecedented improvement in the Company's performance during 1974.

On behalf of the Board,

R. A. Irwin, Chairman of the Board.

W. I. M. Turner, Jr., President and Chief Executive Officer.

Montreal, Quebec, February 28, 1975.

Mill Products Shipped
(in thousands of tons)

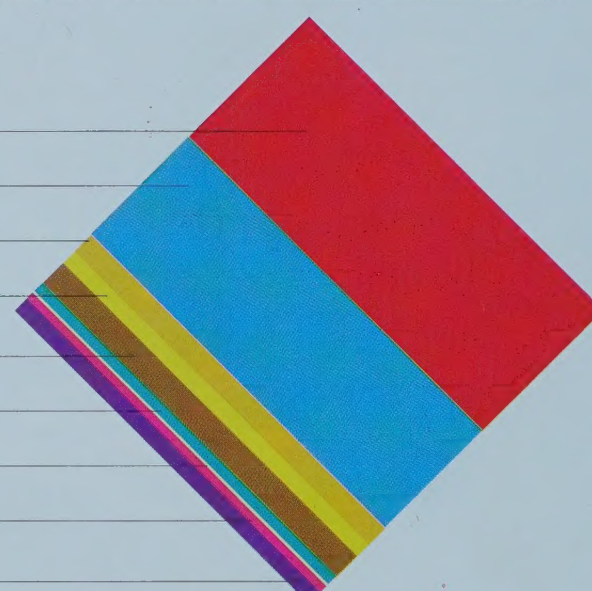
1970	1971	1972	1973	1974	
866	792	912	965	1,006	Newsprint
170	200	227	233	235	Pulp
486	411	461	485	431	Paperboard
75	80	79	79	75	Kraft Paper

Converted Products Shipped

1970	1971	1972	1973	1974	
69,160	72,664	79,269	74,538	67,673	Lumber (Thousands of Board Feet)
27,831	24,698	26,038	28,188	33,258	Bags (Tons)
4,191	4,309	4,776	5,073	4,691	Containers (Millions of Square Feet)
15,347	16,333	14,613	19,282	17,065	Folding Cartons (Tons)
—	—	—	366,899	544,172	Glass (Tons)

Distribution of Revenue (Millions of Dollars)

	1974	1973
Materials, Supplies, etc.	$291	$210
Wages, Salaries and Fringe Benefits	218	179
Fuel and Power	43	28
Depreciation and Depletion	26	21
Federal, Provincial and Municipal Direct Taxes	49	26
Interest	18	15
Minority Interest	1	1
Dividends	17	6
Retained Earnings (excluding Extraordinary Items)	30	14
	$693	$500



Operations Review

In 1974, Consolidated-Bathurst's net sales revenue of $689.0 million was made up approximately as follows: 46% primary mill products, 36% packaging, 16% glass products and 2% lumber. Responsible for the manufacture and marketing of Company products are various operating groups and companies. This review summarizes the main operating developments and activities in each major area.

WOODLANDS

The five divisions of the Company's Woodlands Group supplied over 2,000,000 cunits* of pulpwood, sawlogs and wood chips to the Company's pulp and paper mills and sawmills during 1974. This volume was approximately equivalent to that of 1973 and reflected the high level of pulp and paper production at Company mills. Of the total wood program, 49% comes from Company operated limits, 28% from purchased pulpwood sources and 23% from sawmill residues. Of these residues, 16% comes from the Company's four sawmills.

The wood fibre shortage experienced during the beginning of the year eased considerably, mainly because of reduced activity in the lumber sector as the year went on. The slump in the lumber market also resulted in reduced production or shutdowns in some of the sawmills supplying chips. This reduction in the supply of chips was compensated for by increased purchases of pulpwood.

Woodsworkers were more readily available in 1974 than in prior years and most of the cutting program on Company operated limits had been completed by year end. Wood inventories which had been seriously depleted, particularly in the St. Maurice Division, were replenished. However,

Spring 1974 — on the St. Maurice River below Shawinigan, Que. At its highest level in memory, and overflowing its normal channel, the St. Maurice River, in this photograph, crosses a point of land and cascades into a basin called Trou du Diable.

*cunit = 100 solid cubic feet of wood.

wood cost escalation, particularly in the purchased sector, continued to reflect the high level of fibre demand.

Continuing efforts were made to increase Woodlands operations productivity through mechanization. These efforts, as well as effecting such improvement, served to upgrade the skills of the Company's Woodlands work force.

The development of new logging machinery has advanced considerably over recent years and many prototype machines are now operational. During 1974, through its leasing program, the Company acquired new productive mechanical equipment valued at $6.1 million and replaced $3.5 million of existing equipment. At year end, the Company's total mechanical fleet was valued at $27 million, an increase of $8.2 million over the preceding year.

Government relations

For several years, the Government of Quebec has been moving toward changes in the form of tenure under which the pulp and paper companies in Quebec hold licenses on Crown forests. The present form of tenure is over 100 years old and confers more rights on the limit holder than may be required under modern conditions of multiple-use and greater government involvement in forest management.

The changes envisaged are a reflection of this more direct government management of Crown lands and the increased accessibility to, and use of, such land by the general public for recreational purposes.

Various discussions were held during the year between representatives of industry and of government. The government subsequently made changes to the Lands and Forests Act giving the Minister of Lands and Forests the power to replace timber limits with cutting rights of equivalent value and sufficient to supply the wood-using mills and plants under normal operating conditions.

New equipment is constantly developed to help meet volume requirements for fibre and to control wood cost escalation. The "chiparvester" (above), in Bathurst Woodlands Division, processes hardwood trees into chips. The skidder shown below has, in place of the conventional choker cables and winch, a grapple or claw that speeds pick-up and handling of tree lengths.

It appears that, when the legislation is implemented, the government intends to negotiate with individual companies on a regional basis over a number of years. This is not expected to jeopardize the raw material resources of the Company.

Stumpage rates were increased during the year both in Ontario and in Quebec. This will result in an annual increase to the Company of about $2.5 million in wood costs.

Budworm infestation of the spruce and balsam forests of Quebec and New Brunswick increased alarmingly during 1974. The industry is collaborating with the government in salvage operations, where feasible, to ensure that the most affected areas will receive protection. Approximately two-thirds of the cost of these operations is borne by the provincial and federal governments.

Anticosti Island

On April 23rd, 1974, in the course of negotiations with the Government of Quebec concerning the sale of Anticosti Island, the Government expropriated the Island, although the Woodlands Group continued to administer it for the remainder of the year. An agreement of sale establishing a value of $23.8 million was signed on December 13th. The settlement specifically provided for employment by the Government of Quebec of Company personnel who wished to remain on the Island.

MILL MANUFACTURING

Production of the Manufacturing Group's eight primary pulp and paper mills, all located in Canada, amounted to 1,679,000 tons in 1974, a slight increase from the 1973 capacity operations of 1,653,000 tons.

Cost escalation, resulting in large part from sharply rising raw material prices in the very tight supply and inflationary climate of 1974, accelerated during the year and amounted to an average of 24% above the previous year.

The five newsprint mills operated at capacity and produced a record 1,010,700 tons. The increase of 55,500 tons over 1973 was due primarily to the new Belgo No. 9 machine which started up in November of 1973, and to improved paper machine scheduling, based on computer-assisted systems. The higher tonnage of shipments was achieved notwithstanding the conversion of standard basis weight from 32 lbs. to 30 lbs., and the interruptions caused by spring floods at the St. Maurice Valley mills.

Pontiac efficiency

Early in 1974 the Pontiac pulp mill passed the million-ton mark in its total production since start-up in 1968. In 1974, production and shipments exceeded 200,000 tons for the first time, as a result of continued improvements in operating efficiency. In contrast to other large-scale mills producing market pulp, Pontiac has the unique capability of blending hardwoods by species to provide pulps that meet individual customer specifications.

The kraft pulp mill at Bathurst, N.B., experienced equipment problems early in January which, due to late delivery of replacement parts, were not corrected until November. Accordingly, production of unbleached kraft pulp at that mill was 31,000 tons, well below 1973 production of 45,000 tons.

Linerboard production at the New Richmond mill was 205,700 tons in 1974, approximately 10,000 tons lower than in 1973. About two-thirds of this reduction was due to operating difficulties and to mill downtime to effect necessary repairs. The remainder was due to curtailed operations resulting from reduced market demand in the final months of the year.

Production to increase

Paper mill maintenance and repair expenditures were $26.2 million in 1974 in contrast to $16.8 million in 1973, while capital expenditures were $14.5 million in 1974 compared with $16.6 million for 1973. Capital expenditures of $35.6 million are planned for 1975.

Projects underway in 1974 and due for completion in 1975 will provide production increases of 122,000 tons annually, mainly in newsprint. This additional production capacity will be fully available in 1976. The new projects include a speed-up of the Port Alfred No. 1 newsprint machine to 2500 feet-per-minute, complementing the No. 2 machine speed-up authorized in 1973. These two speed-ups estimated to cost $14.5 million are to provide 72,000 tons per year of additional newsprint production at a cost per daily ton of about half the current cost of new mill facilities.

As part of the Port Alfred machine speed-up program, a 100 ton-per-day refiner mechanical pulp mill will be installed. This installation will reflect the experience gained in the Company's 75 ton-per-day refiner mechanical pulp pilot plant that has been in operation at the Laurentide mill for the past seven years.

Other developments

At year-end, process control computers were in operation on three of the Company's paper machines and had been authorized for an additional six machines.

The Manufacturing Group's research department activities continued to be directed primarily toward improvement of mill operations and to the abatement of pollution. Air and stream environmental improvements, which are integral to the Company's manufacturing activities, are referred to under the Environmental Affairs Section of this review.

PULP AND PAPER

Net sales of primary mill products by the Pulp and Paper Group, after deducting intra-company sales, were $319.0 million in 1974, compared with $229.1 million in 1973.

The year 1974 was characterized by strong demand for all pulp and paper products as customers appeared to build protective inventories to hedge against the recurrence of the shortages experienced at the end of the previous year and against future price increases. As the year ended, demand for some products began to slacken, particularly in North America, in step with generally weakening economies.

Newsprint

Approximately 59% of the Company's newsprint shipments go to the United States, 19% to other export markets, and the balance of 22% to domestic, Canadian markets.

In line with the general industry change, basis weight for newsprint was lowered from 32 to 30 lbs. by June 1st. This transition to a lower weight product went smoothly and the lighter grade was well received by publishers. The lower weight product provides more yardage of paper per ton; and, in this way, has the effect of increasing the industry's useable capacity and of extending fibre resources.

A computer-assisted order entry and allocation system for the Company's 20 newsprint machines helped to optimize "trim" on all paper machines. Sales offices of the Company at Oak Brook, Illinois, and at Greenwich, Connecticut, are now equipped with computer terminals for entering orders and for obtaining order status reports. This provides better and faster customer service.

The selling price of 30 lb. basis newsprint was raised during the year from U.S. $213.30 to $234.65 on July 1, 1974 for the United States market. Similar increases were applicable in other markets. A further increase in the U.S. to $260 per ton for 30 lb. was announced for January 1, 1975.

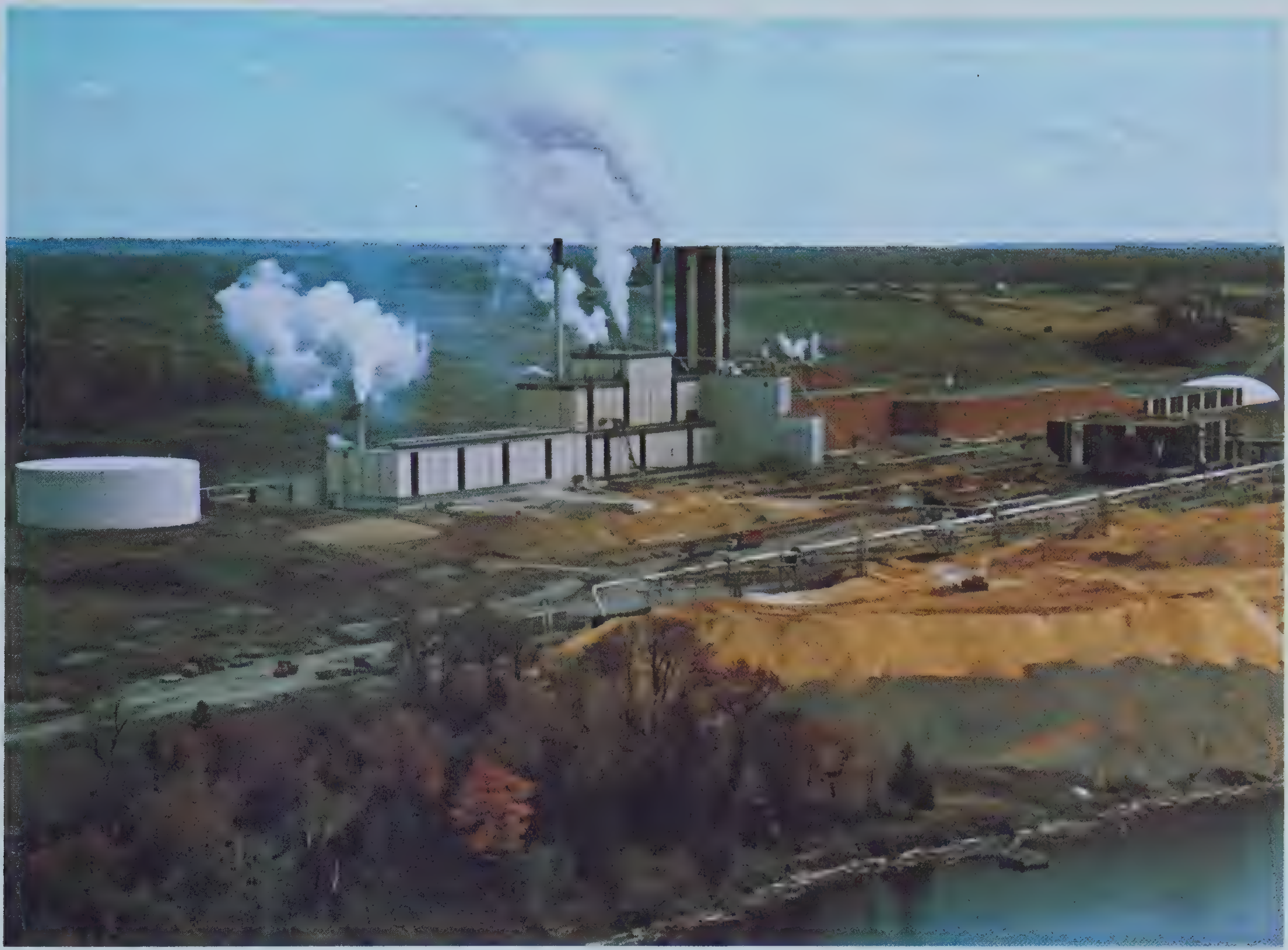
Market Pulp

The demand for market pulp remained firm until the final two months of 1974, when some softening developed. Prices improved throughout the year and the Pontiac bleached kraft pulp mill had a highly profitable year. Bleached hardwood and softwood kraft pulp shipments were a record 204,300 tons. Market pulp from the Bathurst mill was 31,000 tons of unbleached kraft pulp, down about one-third from 1973 due to manufacturing problems.

Paperboard

The two basic containerboard products are kraft linerboard, produced at New Richmond, Que., and corrugating medium, made at Bathurst, N.B. Approximately 50% of the containerboard produced by the Company in Canada is delivered to corrugated container plants of the Company in Canada.

Loading newsprint, the Company's major product line, at Port Alfred in subzero weather. The MV Germundö is "super ice strengthened" and operates year round between Port Alfred, Trois-Rivières and Florida and between New Richmond and the United Kingdom.



Company shipments of linerboard from New Richmond were reduced by operating difficulties and by interruptions early in the year due to shortages of freight cars and severe spring flooding of rail lines. The market for linerboard continued to be strong during the greater part of 1974 but, in the final quarter, it began falling off in both domestic and export markets.

Markets for corrugating medium remained strong during 1974 until the final quarter when softening developed, initially, in export and, later, in domestic demand. Shipments were lower than in 1973 due to problems in the Bathurst mill's kraft pulp recovery system early in the year. Market demand was adversely affected by the Container Division strikes and by hurricanes in Central America where large amounts of corrugated packaging material are normally required.

Demand for boxboard, produced at the Laurentide mill and used mainly in consumer packaging in Canada, was strong for most of 1974. This assisted continued rationalization of product mix and prices that resulted in improved profit contribution. Although boxboard demand weakened markedly by September, overall production in 1974 was approximately the same as that of 1973 because of high production levels of the first nine months.

Kraft Paper

In spite of good demand for kraft paper grades produced at the Wayagamack mill in Trois-Rivières, Que., shipments were 4,000 tons lower than in 1973, as a result of continuing modification of

The Pontiac mill at Portage-du-Fort, Que., to manufacture pulp to precise customer specification, has the unique capability of proportioning hardwood chips by species. During 1974, this mill, the most recently built of the Company's eight primary mills, produced a record 204,300 tons of bleached kraft pulp.

the product mix toward more profitable specialized grades, and of some initial operating delays associated with increased use of purchased chips.

PACKAGING GROUP

Net sales of the Company's Packaging Group, after deducting intra-company sales, were $233.8 million in 1974. Sales in 1973 were $169.4 million.

The Packaging Group is made up of three divisions. The Container Division and the Bag Division operate in Canada under the name Consolidated-Bathurst Packaging Limited. The Overseas Division comprises the German operations which include six corrugated container plants, one solid fibre container plant, two folding carton plants and three paperboard mills.

Container Division

Container Division sales in 1974 were $61.4 million after deducting intra-company sales, higher by 7.2% than in the preceding year. This increase was largely because of an upward adjustment in selling prices to recover increases in the cost of all goods and services. The volume, on a square-foot basis, of corrugated products shipped in 1974 fell by 12.8% from the level attained in 1973, owing to strikes which idled production facilities at five of the Division's eight plants for approximately nine weeks.

Earnings in 1974, in spite of containerboard shortages and the strikes, were higher than in 1973.

Demand for corrugated products was exceptionally firm over most of the first half of the year but, thereafter, gradually slackened through to the end of the year. At year-end, operations were on a sharply reduced basis.

During 1974, $2.9 million was invested in building improvements and new manufacturing equipment, with the object of expanding productive capacity and reducing costs. The largest expenditure was on the installation of a modern corrugator at the Montreal East container plant. Although the start-up of this corrugator was delayed by the strike, the unit was producing corrugated board of high quality by year-end.

A 19-acre site was purchased in Winnipeg to provide for the relocation and expansion, in due course, of existing corrugated container operations in that area.

Bag Division

The year 1974 was unprecedented in the Bag Division's history, with net sales of $32.5 million exceeding the previous year's record performance by approximately $11 million, an increase of 52%. Earnings also improved.

These results were achieved although growth was restricted in certain operations due to difficulties experienced for most of the year in obtaining an adequate supply of raw materials.

Contributing to the Division's record performance were the high level of demand for paper and plastic shipping sacks and a substantial growth in the markets for the flexible packaging and coated products produced at three of the Division's four plants.

During the latter part of the year, it became evident that a large proportion of the heavy demand for products of the Division had reflected unusually high inventory build-up in many industries. This inventory build-up and the general business slowdown that followed affected most customers and is likely to have an adverse effect on performance in 1975.

Overseas Division

The year 1974 was also a record year for the Overseas Division, both in shipments and earnings. Net sales were 340.4 million Deutsche Mark* which represented an increase of 38.2% over those of 1973. The market remained very strong in all sectors and all production units were running at full capacity until the beginning of the fourth quarter. At that point, the Division experienced a slowdown which had

S & S Corrugator, installed at the Montreal East container plant, started up in November 1974. This unit forms the flutes in the corrugating medium and combines it with two liners. It also slits, scores and cuts off the resulting corrugated board in sheets to lengths required for further manufacture. The corrugator takes containerboard rolls up to 88" wide and runs at speeds up to 650 feet/minute.

*1974 year-end exchange rate: 1 DM=$0.41 Cdn.

been expected for some time due to generally reduced economic activity.

Until this slowdown, growth during the year was restricted by continuing raw material shortages and sharply increased costs of components. In line with these higher costs, the selling prices of all converted goods were increased. Substantial increases in the cost of pulp and wastepaper prompted the Division's three paperboard mills to make corresponding adjustments in prices of their products.

A number of important expansion decisions were made during 1974. Lauenburger Wellpappenwerk GmbH, a company producing corrugated shipping containers, was acquired. Located in Northern Germany, this plant adds 20% to the Division's productive capacity for corrugated operations and complements the production of the plants at Hamburg and Luebbecke, both in Northern Germany. Construction of a building addition at the Neuburg corrugated container plant, in Southern Germany, was started. This addition will increase the capacity of that plant by approximately 10% and will improve production flow and efficiency.

Land was acquired in Hamburg during 1974 for relocation and expansion of wastepaper operations there. This project is now under way.

WOOD PRODUCTS GROUP

Net sales of the Wood Products Group for 1974 were $12.8 million compared with $14.3 million in 1973. In addition, intra-company sales of residue to pulp and paper mills of the Company were $1.9 million in 1974, compared with $1.5 million in 1973. The Group, operating Gillies Bros. & Co. Ltd., comprises a pine sawmill at Braeside, Ontario, and spruce sawmills at New Richmond and Notre-Dame-du-Rosaire, Quebec. During the year, a third spruce mill at Marsoui, Quebec, was acquired through purchase of Bobois Ltée.

This acquisition is in line with a Company policy of promoting integration within the lumber sector where raw material sources warrant. The Bobois sawmill is capable of producing 35 million feet board measure of lumber, and is an important supplier of chips to the New Richmond linerboard mill.

In the lumber sector, the first half of 1974 was strong in both volume and operating income. Thereafter, the decline in lumber prices was precipitous due to a slump in housing starts in both Canada and the United States.

The outlook for 1975 shows few signs of improvement, although new markets have been established in the European Common Market.

In 1974, an agency agreement was entered into with Domtar Woodlands Limited involving the sale of the production of the new Domtar spruce sawmill at Lebel-sur-Quévillon, Quebec. Production from the sawmill will commence in May with a potential of approximately 35 million fbm in 1975, increasing to 100 million fbm in 1976.

DOMINION GLASS

During 1974, Consolidated-Bathurst made a public offer for the outstanding common and preferred shares of Dominion Glass Company Limited not previously owned. The Company's holdings currently represent 96% of voting control. Sales of Dominion Glass have been consolidated with those of the Company for the last nine months of 1973 and for the year 1974.

Dominion Glass reported net sales in 1974 of $111.4 million, an increase of $14.8 million or 15% over net sales in 1973. While part of this revenue increase resulted from improved prices, physical shipments of most categories of glass containers were above 1973 levels. Dominion's tumbler and tableware product group also showed a satisfactory increase in volume. Shipments of pressed glass industrial products from National Pressed Glass were also up from the preceding year.

During most of 1974, Dominion Glass

High-speed Hudson-Sharp Flexographic press at the new bag and flexible packaging products plant at Brantford, Ont. The unit, one of three types of press in use there, prints kraft paper to serve as outer layer of multi-wall bags, with product and customer identification in up to six colours.

faced difficult material and labour supply problems and rapid escalation of the costs of all goods and services required to produce and distribute its products. As a result of improved productivity and selling price increases, net income in 1974 amounted to $3.7 million compared with $1.3 million in 1973.

As part of a planned program to broaden the company's activities, Dominion Glass purchased all of the shares of Dorchester Electronics Limited late in 1974. Dorchester manufactures radio/record players, assembles electronic equipment on a contract basis, and has plastic injection moulding, metal stamping and tool-making operations as well. All of these operations are located in Toronto. This acquisition had no significant impact on the 1974 results of Dominion Glass.

TWINPAK LTD.

Net sales of Twinpak Ltd. in 1974 were $12.0 million, an increase of $4.2 million or 55% above the 1973 level. This increase reflects increased sales of Twinpak's established lines of packaging machinery systems, food service disposables, polyethylene bottles, injection moulded products, and plastic squeeze tubes, as well as the transfer to Twinpak in October 1973 of the Dominion Glass plastic container operation.

During 1974, Twinpak built a new plant in Mississauga, Ontario, and moved the operations of the previous Dominion Glass plastics division to this location. Although the start-up costs of this plant and the cost of moving Dominion Glass' plastics operations were absorbed in 1974, Twinpak's operating income improved over that of 1973.

Expenditures for additional facilities at the flexible tube manufacturing plant in Granby, Quebec, were approved in the fall of 1974, and the new facilities will be in operation in 1975.

ENVIRONMENTAL AFFAIRS

Over the period 1966 to the end of 1974, the Company's total capital expenditures and operating costs relating to pollution abatement have amounted to $18 million. Approximately $2 million of this amount was spent in 1974, mainly in the primary product mills, where in-depth studies led to consolidation of a detailed five-year plan covering requirements to comply with legislated controls for air and water emissions. The on-going allocation associated with this plan is currently estimated to grow to about $7 million annually, because of inflationary effects and more stringent regulatory requirements.

The section of the plan dealing with water has received general acceptance by the authorities. In principle, it deals first with those items which affect health and environmental well-being, with priority also directed to those projects which have some offsetting benefit due to savings in fibre, chemicals and usage of water.

Studies to determine the most economic option for in-plant recycling of sulphite waste liquor chemicals for reduction of biological oxygen demand have been undertaken for the two large

Lauenburger Wellpappenwerk GmbH (top) was acquired by the Company's Overseas Division during 1974. This plant, near Hamburg, becomes the sixth corrugated container plant of the Division and adds 20% to its productive capacity for corrugated products.

Bobois Ltée's modern, spruce sawmill at Marsoui, Que., on the north shore of the Gaspé peninsula, was acquired when Gillies Bros. & Co. Ltd. purchased Bobois' outstanding shares in the summer of 1974.

sulphite mills and for the corrugating medium mill at Bathurst, N.B.

Various permits were obtained during 1974 from the appropriate government agencies relating to certain packaging plant operations. The nature of Company operations is such, however, that the major effort for implementing environmental controls is required in the primary pulp and paper mills.

In recent years, the Federal and Provincial government agencies have been following up environmental regulations on a consultative basis with the industry and its mills — an increasingly beneficial form of communication.

EMPLOYEE RELATIONS

At the Company's primary mills, no labour agreements expired during the year. However, the rapid increase in living costs, combined with a general tendency to grant voluntary mid-contract adjustments, resulted in strong union demands for special increases in wages. In response, the Company implemented an additional increase of $0.25 per hour effective September 1, 1974, and a cost of living allowance of 1¢ per hour per 0.35 point increase in the consumer price index, to be effective from January 1, 1975, to the expiration of existing agreements on April 30, 1975.

In the Packaging Group in Canada, ten of the 12 labour agreements were renewed and, in all cases, two-year contracts were completed. In the course of these renewals, strikes of approximately nine weeks were experienced in five of the six container plants in Ontario and Quebec. These labour agreements, while at historically high levels, are generally competitive with the converting sector involved. Six of the 12 container and bag plants in Canada have, since November 1, 1974, a cost of living adjustment clause in the new labour agreements. Such clauses should moderate the pressures for adjustments and bring back some measure of labour stability and contract integrity.

Labour negotiations conducted in the Woodlands sector during 1974 led to contract settlements involving employee groups representing two-thirds of the wood cutting program. The difficulty faced by the industry in the last two years in attracting trained labour weighed heavily in the unions' pressure to obtain their demands. Again, all settlements were at historically high levels but fully competitive.

New provisions contained in labour agreements helped to attract workers lost to the lumber industry during 1972 and 1973. As the year progressed, and with trained woodcutters available, emphasis was changed from recruitment to training activities to upgrade the skills of equipment operators and mechanics.

Industry "lexique"

An outgrowth of manufacturing training activities at the Port Alfred mill was publication, by the Régie de la Langue Française of Quebec, of a lexicon or dictionary of pulp and paper industry terminology. This reference manual contains the French language versions of some 10,000 industry and operating terms. It was prepared and edited by Monsieur Laurent Gobeil, the Company's training officer at the Port Alfred mill. The development of the manual, begun by M. Gobeil a decade ago, was encouraged by the Company to improve the quality of the French used as the language of work at Port Alfred and other Company mills. This "lexique" is the first manual of a series for various industries planned by the Régie de la Langue Française.

To mark a record year in the performance of the Company, one share of common stock was sent early in December to salaried employees of the parent Company in Canada. This gesture was also intended to assure that these employees receive all shareholder communications, to help acquaint them with and remind them of the considerations in Company affairs that are involved in ownership participation.

Dominion Glass' new Technical Centre, occupied in August 1974, houses a group of industrial and research laboratories consolidating research, development and engineering programs previously carried out in Hamilton, Bramalea and Montreal. A research chemist, in the upper photo, uses a metallograph in the fine instrument lab to determine surface characteristics.

The same staff member (below) demonstrates an instrument typical of the product quality laboratory — an internal pressure tester that establishes bursting strength of the container. The Centre is in Sheridan Park, 12 miles west of Toronto.

Financial Review

As a result of record earnings in 1974, of $47.7 million, before extraordinary items, compared with $19.9 million in 1973, funds generated from operations amounted to $91.5 million, an increase of $41.8 million over the prior year. In addition, funds were derived from the expropriation of Anticosti Island amounting to $23.8 million and $24.4 million from the sale of 982,022 common shares of The Price Company Limited. These transactions, combined with the improved cash flow from operations, considerably strengthened the financial position of the Company in 1974.

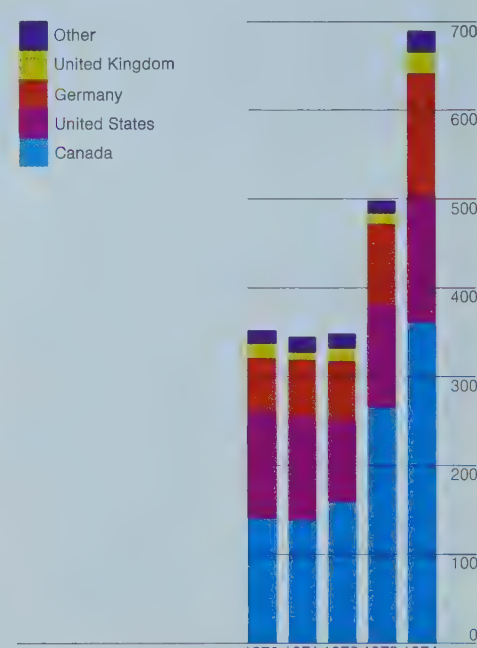
Reflecting this overall strengthening, working capital increased during the year by $52.0 million with the ratio going from 1.7:1 in 1973 to 1.9:1 in 1974. During the year, short-term bank indebtedness was reduced by $16.0 million to $29.9 million and the non-current portion of long-term debt was reduced by $11.8 million. During 1974 the Company acquired for cancellation 646,025 preferred shares having a book value of $16.2 million.

At year-end, the Company's short-term bank lines of credit amounted to $131.2 million compared with $82.0 million at the end of 1973. In addition, the Company arranged during the year further credit by way of term bank lines amounting to $30.0 million. Late in 1974, a wholly-owned subsidiary filed a preliminary prospectus with various securities commissions in Canada and on February 26, 1975 an underwriting agreement was signed for $35.0 million 11% First Mortgage Sinking Fund Bonds.

Capital expenditures in 1974 amounted to $37.0 million, an increase of 22% over 1973. Of these expenditures, 87% were in Canada in 1974 compared with 92% in 1973, with the remainder relating to the Company's German operations. In addition, the Company's acquisition program in 1974 resulted in cash outlays of $13.0 million, mainly in connection with increasing its control of Dominion Glass Company Limited from 62% to 96%.

Cash Flow and Earnings per Common Share
(Dollars per Share)

Net Sales by Geographical Market
(Millions of Dollars)



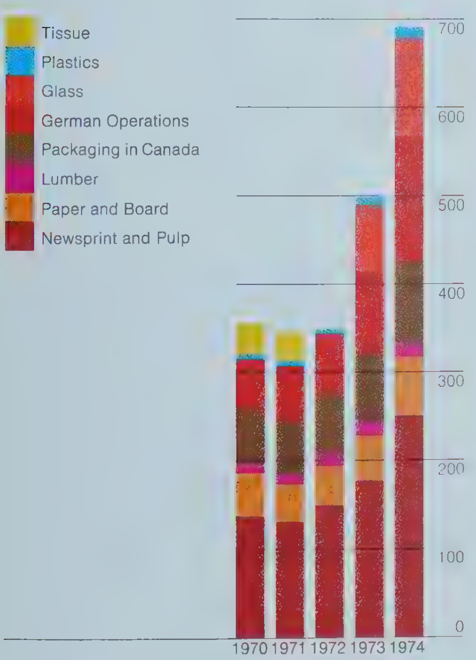
Sales + pre-tax total - earnings comp. to $53.4 in income statem

Return on Investment

(Per cent)

Net Sales by Product

(Millions of Dollars)



In 1974 dividends amounting to $15.1 million were declared on the common shares and $2.2 million was declared on preferred shares. These dividends represented 28% of net earnings for the year.

Inflation Effects

During periods of comparatively high rates of inflation, the costs of replacing fixed assets and, to a lesser extent, inventories are significantly higher than their historical costs. Earnings, therefore, tend to be overstated because depreciation and cost of sales are based on historical costs. On the other hand, there is an unrecorded gain in purchasing power because long-term debt can be repaid in dollars having less purchasing power than at the time the funds were borrowed. During the year, the Company participated, with a number of other pulp and paper companies, in studies on inflation accounting and its impact on the industry in general.

While uniform criteria for the preparation and presentation of inflation accounting data have yet to be established, the Company has estimated that, after making adjustments to offset the major effects of inflation, earnings before extraordinary items would approximate $6.00 per common share in 1974.

Of far more critical importance during inflationary periods are the large amounts of capital, compared to historical cost, needed to modernize and expand productive facilities. During 1974, the Company's return on net assets amounted to 9%. One of the serious adverse effects of inflation is that such a return, on an estimated replacement cost asset base, declines substantially to approximately 3%. This, in the Company's opinion, is the most significant factor to emerge from inflation accounting studies.

Furthermore, the funds required to finance inventories and accounts receivable by year-end had increased $85.9 million over last year. This increase was, in large measure, due to continuing worldwide inflationary pressure.

mad 74-1 on 1,006 mill + or 25 %

1975 34.— or 842 — 40 ton

Statement of Consolidated Earnings for the year ended December 31, 1974

		1974	1973
Net sales and other income	Net sales	$689,009,000	$497,683,000
	Other income		
	Income from investments	3,365,000	362,000
	Gain from debt retirement and disposition of property and plant	1,045,000	2,189,000
		693,419,000	500,234,000
Costs and expenses	Cost of goods sold	526,122,000	398,527,000
	Administrative and selling expenses	40,294,000	31,011,000
	Depreciation	25,422,000	21,277,000
	Depletion	236,000	223,000
	Interest on debt issued for terms in excess of one year	12,240,000	11,916,000
	Interest on other indebtedness	6,205,000	2,602,000
		610,519,000	465,556,000
		82,900,000	34,678,000
	Income taxes	34,463,000	14,220,000
	Minority interest	725,000	588,000
Earnings before extraordinary items		47,712,000	19,870,000
	Extraordinary items, net of income taxes (note 10)	14,608,000	(900,000)
Net earnings for the year		$ 62,320,000	$ 18,970,000
Earnings per common share	Basic		
	Before extraordinary items	$ 7.10	$ 2.74
	Extraordinary items	2.28	(0.14)
	After extraordinary items	$ 9.38	$ 2.60
	Fully diluted	$ 8.30	$ 2.45

Statement of Consolidated Retained Earnings for the year ended December 31, 1974

		1974	1973
Retained earnings at beginning of year	As previously reported	$ 62,529,000	$ 49,944,000
	Reclassification of capital surplus	18,400,000	18,400,000
	As restated	80,929,000	68,344,000
Net earnings for the year		62,320,000	18,970,000
		143,249,000	87,314,000
Dividends	Common	15,108,000	—
	Preferred	2,198,000	6,385,000
Retained earnings at end of year		$125,943,000	$ 80,929,000
Dividends	per common share	$ 2.25	$ —
	per preferred share	$ 1.50	$ 3.38

Statement of Consolidated Changes in Financial Position for the year ended December 31, 1974

		1974	1973
Working capital at beginning of year		$ 81,066,000	$ 77,303,000
Source of working capital	Operations		
	Earnings before extraordinary items	47,712,000	19,870,000
	Non-cash charges (credits)		
	Depreciation and depletion	25,658,000	21,500,000
	Deferred income taxes	18,407,000	9,841,000
	Gain from debt retirement and disposition of property and plant	(1,045,000)	(2,189,000)
	Minority interest	725,000	588,000
		91,457,000	49,610,000
	Proceeds from disposition of investments	28,856,000	2,079,000
	Proceeds from disposal of property and plant including those relating to expropriation of Anticosti Island and other timberlands	27,843,000	2,334,000
	Issuance of common shares (note 9)	46,535,000	2,573,000
	Decrease (increase) in advances to trustees under stock option and purchase plans	1,238,000	(1,169,000)
		195,929,000	55,427,000
Application of working capital	Additions to property and plant	36,992,000	30,242,000
	Acquisition of investments	47,637,000	—
	Acquisition of additional shares of subsidiary companies	11,667,000	2,314,000
	Decrease in long-term debt	11,803,000	12,265,000
	Dividends on preferred shares	2,198,000	6,385,000
	Dividends on common shares	15,108,000	—
	Dividends paid by subsidiaries to minority interest	294,000	750,000
	Purchase of preferred shares for cancellation (note 9)	11,391,000	—
	Net decrease (increase) in working capital resulting from acquisition of subsidiary companies (note 6)	3,160,000	(676,000)
	Charges affecting working capital, made against provision for estimated charges of an extraordinary nature	3,208,000	1,150,000
	Deferred charges and other items — net	492,000	(766,000)
		143,950,000	51,664,000
Increase in working capital during year		51,979,000	3,763,000
Working capital at end of year		$133,045,000	$ 81,066,000

Consolidated Balance Sheet as at December 31, 1974

Assets

		1974	1973
Current assets	Cash and short-term deposits	$ 11,893,000	$ 15,372,000
	Accounts receivable	102,928,000	80,435,000
	Inventories (note 1)	167,407,000	104,039,000
	Prepaid expenses	5,061,000	3,899,000
		287,289,000	203,745,000
Property and plant	Mills, plants and other properties	634,033,000	611,733,000
	Less: Accumulated depreciation and depletion (note 2)	317,097,000	298,617,000
		316,936,000	313,116,000
Investments and other assets	Investments (note 3)	26,452,000	11,026,000
	Advances to trustees under stock option and purchase plans (note 4)	3,001,000	4,239,000
	Unamortized long-term debt expense	1,861,000	2,097,000
	Deferred charges	1,093,000	764,000
		32,407,000	18,126,000
		$636,632,000	$534,987,000

On behalf of the Board:

R. A. Irwin, Director
W. I. M. Turner, Jr., Director

Liabilities and Shareholders' Equity

		1974	1973
Current liabilities	Due to banks	$ 29,922,000	$ 45,935,000
	Accounts payable and accrued expenses	76,347,000	50,856,000
	Taxes and stumpage dues	28,578,000	15,253,000
	Dividends payable	4,252,000	940,000
	Long-term debt due within one year	15,145,000	9,695,000
		154,244,000	122,679,000
Provision	Provision for estimated charges of an extraordinary nature (note 5)	15,985,000	15,543,000
Deferred liability	(note 6)	4,078,000	4,078,000
Long-term debt	(note 7)	134,833,000	144,612,000
Deferred income taxes		75,343,000	58,150,000
Minority interest	(note 8)	6,502,000	19,676,000
Shareholders' equity	Preferred shares (note 9)	31,078,000	47,229,000
	Common shares (note 9)	88,626,000	42,091,000
	Retained earnings	125,943,000	80,929,000
		245,647,000	170,249,000
		$636,632,000	$534,987,000

Auditors' Report

The Shareholders,
Consolidated-Bathurst Limited.

We have examined the consolidated balance sheet of Consolidated-Bathurst Limited and Subsidiary Companies as at December 31, 1974, and the statements of consolidated earnings, retained earnings, and changes in financial position for the year then ended. For Consolidated-Bathurst Limited and those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to those subsidiaries of which we are not the auditors, we have carried out such inquiries and examinations as we considered necessary in order to accept, for purposes of consolidation, the reports of the other auditors.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants.

Montreal, Que., February 28, 1975.

Summary of Significant Accounting Policies

The Company follows generally accepted accounting principles in the preparation of its consolidated financial statements and their application is consistent with that of the preceding year. Reclassifications have been made to the 1973 figures to conform with the presentation adopted in 1974.

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies with provision for the interests of minority shareholders. The acquisitions of all subsidiary companies are accounted for on a purchase basis and earnings are included in the consolidated financial statements from the date of acquisition of control.

The excess of the cost of the Company's investments in subsidiaries over the net book value of the assets acquired is included in property and plant. The excess purchase price relating to the acquisition of Bathurst Paper Limited in 1966 has been reduced in 1974 by the gain (represented by the excess of book value over purchase price) on (a) the 5¼% Cumulative Redeemable Preferred Shares, 1963 Series, of Bathurst Paper Limited, which have been purchased for cancellation and (b) those shares purchased for cancellation of the Company's 6% Cumulative Redeemable Preferred Shares, 1966 Series and which were originally issued in exchange for Bathurst Paper Limited Class A and common shares at the time of acquisition. All significant inter-company items are eliminated.

Foreign Exchange

Assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for working capital items and at approximate exchange rates prevailing at the transaction dates for non-current assets and liabilities with the exception that provision has been made for potential foreign exchange charges on the repayment of the German term bank loans. Income and expenses other than depreciation are translated at average exchange rates prevailing during the year except for those of the German subsidiaries which are translated at year-end exchange rates as their net earnings are distributed to the Company in the following year; depreciation is translated at historic exchange rates.

Inventory Valuation

Expenditures on woods operations are carried at cost. Pulwood, chips, sawlogs and wood residues at mills, other raw materials, manufacturing supplies and stores are carried at average cost. The cost of work in process and finished goods inventories includes raw material, direct labour and certain manufacturing overhead expenses; these inventories are carried at the lower of average cost and net realizable value. Adequate provision is made for slow-moving and obsolete inventories.

Investments

Investments in non-controlled companies are stated at cost less write-downs for declines in value where appropriate.

Property and Plant and Depreciation

Mills, plants and other properties are stated at cost less deductions for retirements. Properties acquired prior to January 1, 1970 have been depreciated using in some cases the straight-line method and in other cases the diminishing balance method. Additions since 1970 have been depreciated on the straight-line method. Depreciation is charged to operations at rates based upon the estimated useful life of each depreciable property.

The major portion of the Company's timber limits is carried in the accounts at nominal value and, therefore, no depletion is charged thereon. Depletion is charged on other limits on the basis of wood cut each year.

At the time of disposition of property and plant, the Company removes from the accounts the cost of the assets and the related accumulated depreciation. Generally, gains or losses on the disposition of assets are included in income where such assets were depreciated using the straight-line method and in accumulated depreciation in other cases.

Cost of major equipment rebuilds relating to the glass operations is charged to operations on a straight-line method over the estimated useful life.

Maintenance and Repairs

Maintenance and repairs are expensed in the year in which they are incurred. Expenditures which result in a material enhancement of the value of the facilities involved are treated as additions to property and plant.

Research and Development

Research and development expenditures other than capital expenditures relating thereto are charged to earnings in the year in which they are incurred.

Pensions

The Company and its main operating subsidiaries have pension plans for employees, most of which are contributory and trusteed. These plans are being funded and the current service cost portion is charged to income as incurred. The Company and a subsidiary have unfunded past service pension liabilities, as described in note 11, the cost of which is being charged to earnings in seventeen equal annual amounts commencing in 1974.

Income Taxes

The Company follows the tax allocation basis in accounting for income taxes. Deferred income taxes shown on the financial statements represent taxes deferred mainly in respect of capital cost allowance claimed in excess of depreciation charged in the accounts.

Earnings per Common Share

Basic earnings per common share are computed by dividing net earnings for the year, after deducting preferred dividend requirements, by the weighted average number of common shares outstanding during the year. Fully diluted earnings per common share assume that share purchase warrants and stock options outstanding at December 31 were exercised at the beginning of the year and the related proceeds invested at current interest rates prevailing during the period after allowance for income taxes on the imputed interest income.

Notes to Consolidated Financial Statements December 31, 1974

1. Inventories

	1974	1973
Expenditures on woods operations, at cost	$ 34,398,000	$ 17,746,000
Pulpwood, chips, sawlogs and wood residues at mills, at average cost	30,588,000	23,169,000
Other raw materials and supplies, at average cost	53,217,000	30,400,000
Work in process and finished goods, at the lower of average cost and net realizable value	49,204,000	32,724,000
	$167,407,000	$104,039,000

2. Property and plant

	1974			1973
	Cost	Accumulated depreciation and depletion	Net	Net
Pulp, paper, paperboard and lumber mills	$429,174,000	$215,527,000	$213,647,000	$211,407,000
Converting plants	85,092,000	41,711,000	43,381,000	36,070,000
Glass plants	99,572,000	48,989,000	50,583,000	51,848,000
Woodlands assets	11,283,000	6,662,000	4,621,000	4,070,000
Timber limits and rights	8,912,000	4,208,000	4,704,000	9,721,000
	$634,033,000	$317,097,000	$316,936,000	$313,116,000

3. Investments

Investments consist of shares in Rolland Paper Company, Limited, shares in The Price Company Limited, other securities at cost for which no market quotations are available, and loans which are not of a current nature. At December 31, 1974 the market value of the investment in Rolland Paper Company, Limited was $64,000 in excess of the written-down cost and the market value of the investment in The Price Company Limited was $7,184,000 below cost.

4. Advances to trustees under stock option and purchase plans

Advances to trustees of $3,001,000 consist of:

(a) A balance of $2,102,000 (including $1,959,000 owing to the trustees from certain Officers, one of whom is a Director) outstanding under the Exercised Option Purchase Plan established in 1972. Under provisions in this Plan, Officers and certain employees who were granted stock options by the Company (see note 9) assigned their options to trustees who exercised these options in full in 1972 and 1973.

(b) A balance of $899,000 (including $285,000 owing to the trustees from certain Officers, one of whom is a Director) outstanding under the Executive Employee Stock Purchase Plan established by the Company in 1969. Under provisions in this Plan, a total of 124,546 common shares have been issued from Treasury at the then prevailing market prices, none of which were issued in 1974.

5. Provision for estimated charges of an extraordinary nature

Changes during 1974 and 1973 in the provision for estimated charges of an extraordinary nature are:

	1974	1973
Balance at beginning of year	$ 15,543,000	$ 18,820,000
Increase in the provision for the estimated potential foreign exchange charges on the repayment of the long-term portion of the German term bank loans (consisting in 1974 of an increase in December of $3,650,000 less transfer in July to current liabilities of $1,875,000 associated with the first of four equal annual repayments beginning July, 1975)	1,775,000	7,500,000
Charges associated with the divestment of Bulkley Valley Forest Industries Limited, including the discharge of certain guarantees	(1,333,000)	(538,000)
Losses and charges principally incurred in the phase-out of facilities used for the manufacture of containers, for the production of sulphite pulp and linerboard at the Bathurst mill and for certain pulpwood operations	—	(981,000)
Write-down of cost of investment in Rolland Paper Company, Limited	—	(5,215,000)
Provision no longer required	—	(4,043,000)
	442,000	(3,277,000)
Balance at end of year	$ 15,985,000	$ 15,543,000

The balance of the provision at December 31, 1974 is to provide for contingent charges in the amount of $6,710,000 associated with the divestment of Bulkley Valley Forest Industries Limited and estimated potential foreign exchange charges in the amount of $9,275,000 on the repayment of the long-term portion of the German term bank loans.

During 1974, the Company acquired for cancellation 646,025 (of which 644,425 were cancelled by year-end) of its Preferred Shares, 1966 Series, in exchange for 337,822 common shares of The Price Company Limited and cash of $7,211,000. The aggregate cost of such Preferred Shares was recorded at $11,391,000. The gain of $4,760,000 on the purchase for cancellation of the Preferred Shares has been applied to reduce the excess purchase price relating to the acquisition of Bathurst Paper Limited, as referred to in The Summary of Significant Accounting Policies. The disposal of the said common shares of The Price Company Limited resulted in a loss of $3,356,000 which has been charged to earnings as an extraordinary item (see note 10).

Pursuant to agreements made on November 20, 1974 with a United Kingdom group, the Company issued as fully paid 930,385 common shares at a stated value of $50 per share totalling $46,519,250 in consideration for the transfer to the Company of 1,860,770 common shares of The Price Company Limited.

Subject to provisions in certain convenants in the trust deeds securing the debentures, in the loan agreements and in the provisions attaching to the Preferred Shares, such Preferred Shares may be redeemed after March 31, 1975, at the option of the Company, on 30 days' notice at $26 per share plus all unpaid dividends accrued thereon. Commencing in 1975 and in each year thereafter (unless the market price is in excess of the redemption price) the Company is obliged to make all reasonable efforts to purchase for cancellation 2% of the 1,889,144 Preferred Shares originally issued. Dividends on the Preferred Shares and common shares, other than stock dividends, are subject to restrictions in the said convenants and provisions. The Preferred Shares are non-voting unless the Company fails to pay, in the aggregate, eight quarterly dividends.

To December 31, 1974, options had been granted to a number of senior employees to purchase, at a price of $10⅝ per share, 282,000 common shares of the Company including 245,000 to certain Officers, one of whom is a Director. During 1974, options for 1,400 common shares (242,200 in 1973) were exercised. At December 31, 1974, options for 6,400 common shares had not been exercised and options for 15,000 common shares had lapsed.

The following authorized but unissued common shares of the Company have been reserved for issue in respect of:	1974	1973
1966 share purchase warrants	944,567	944,567
1968 share purchase warrants	224,745	224,760
Executive Employee Stock Purchase Plan (see note 4)	100,454	100,454
Stock options	6,400	7,800
Interest on 5½ % First Mortgage Bonds 1961 Series (retired in 1947) of the Company	610	610

The 1966 share purchase warrants relate to the acquisition of the Class A and common shares of Bathurst Paper Limited. Each such warrant entitles the holder to purchase one common share of the Company, as presently constituted, at a price of $45 per share. These warrants expire on March 31, 1975.

The 1968 share purchase warrants relate to the issue of the 8% Series C Debentures. Each such warrant entitles the holder to purchase one common share of the Company, as presently constituted, at a price of $20 per common share. These warrants expire on November 15, 1978.

10. Extraordinary items

Year ended December 31, 1974:	
Net gain resulting from the expropriation of Anticosti Island by the Province of Quebec, after deducting deferred income tax debits thereon of $325,000	$ 18,484,000
Loss on 337,822 common shares of The Price Company Limited exchanged for 255,300 Preferred Shares of the Company	(3,356,000)
Charge to earnings representing an additional provision of $3,650,000 for estimated foreign exchange charges on repayment of the long-term portion of the German term loans (see note 5), after deducting deferred income tax credits thereon of $1,650,000	(2,000,000)
Credit to earnings representing gain from the expropriation of certain of the Company's freehold properties and licensed timber limits in the Grand'Mère region by the Province of Quebec, after deducting income tax debits thereon of $63,000	1,480,000
Net credit to earnings	$ 14,608,000
Year ended December 31, 1973:	
Charge to earnings representing a provision of $7,500,000 for estimated potential foreign exchange charges on repayment of the German term bank loans (see note 5), after deducting deferred income tax credits thereon of $3,300,000	(4,200,000)
Credit to earnings from the provision for estimated charges of an extraordinary nature representing that part of the provision no longer required as a result of: decisions made to write down the cost of the investment in Rolland Paper Company, Limited and not to phase out certain facilities used for the production of pulp at the Bathurst mill; and less than anticipated costs associated with the former U.S. tissue operations, after deducting deferred income tax debits thereon of $743,000	3,300,000
Net charge to earnings	$ (900,000)

11. Other information

(a) The consulting actuaries to the Company and to its subsidiaries have advised that, as at December 31, 1974, mainly as a result of pension benefit improvements introduced in 1973 and 1974, certain of the pension plans have unfunded past service pension liabilities estimated to be $19,600,000. The unfunded liability is being funded and charged to earnings in seventeen equal annual amounts commencing in 1974.

(b) The Company considers its classes of business to be (i) forest products operations, and (ii) glass operations. The sales and earnings attributable to the glass operations since acquisition in April, 1973 are:

	Twelve months ended December 31, 1974	Nine months ended December 31, 1973
Net sales	$111,441,000	$ 77,137,000
Net earnings	$ 3,730,000	$ 1,060,000
Net earnings available to the Company	$ 3,255,000	$ 542,000

(c) As at December 31, 1974 the Company and its subsidiaries were committed:
- — under purchase orders and contracts for capital expenditures for a total of $18,400,000;
- — for rental agreements having terms not in excess of: eighteen years for office space, converting plants and equipment, and mill equipment; eight years for automotive and woodlands equipment; and in respect of which the 1975 payments amount to $9,700,000;
- — under contracts for the charter of vessels for periods not in excess of two years, the payments in 1975 aggregating $1,600,000.

(d) At December 31, 1974 the Company and its subsidiaries were contingently liable for:
- — $4,300,000 arising principally from notes discounted and sundry guarantees;
- — payments due by its former U.S. tissue subsidiary — Concel, Inc. — under a guarantee by the Company covering a production agreement which terminates in 1988. Should certain events occur during any two consecutive years, the production agreement may then be terminated. The exposure of the Company is estimated not to exceed $8,000,000 during the next two years. The purchaser of Concel, Inc. has agreed to indemnify the Company should it be called upon to respond under its guarantee;
- — an action has been instituted in the Supreme Court of British Columbia against Bulkley Valley Forest Industries Limited, in which the Company had an interest, for alleged damages in an unspecified amount caused by a cut-back of operations. The Company has been notified by the defendant that it will be held liable for any damages that may be payable as a result of such action. The Company would be jointly liable with a third party for such damages, each to the extent of one-half thereof.

(e) The remuneration received by Directors and Officers (including past Officers) was as follows:

	1974				1973			
	Directors		Officers		Directors		Officers	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
From:								
Consolidated-Bathurst Limited	17	$ 98,000	20*	$1,555,000	16	$ 90,000	21*	$1,151,000
From subsidiaries:								
Bathurst Paper Limited	17	21,000	6*	—	16	18,000	6*	—
Dominion Glass Company Limited	9	157,000	1**	—	8	114,000	2**	29,000
Europa Carton A.G.	—	—	3**	58,000	—	—	3**	52,000
		$276,000		$1,613,000		$222,000		$1,232,000

*Two Officers were also Directors of the Company
**One Officer was also a Director of the Company

12. Events subsequent to year end

(a) To February 20, 1975, the Company purchased for delivery and cancellation at a cost of $2,521,000 Series A and B Debentures having a book value of $3,386,000.

(b) On February 28, 1975, the Directors authorized, subject to sanction by the shareholders and the issue of supplementary letters patent, an increase of capital of the Company by creating an additional 5,000,000 common shares without nominal or par value.

(c) On February 26, 1975, a wholly-owned subsidiary entered into an underwriting agreement for the sale of $35,000,000 11% First Mortgage Sinking Fund Bonds, Series A to be issued at par with proceeds estimated to be $33,950,000.

Ten-Year Summary (Dollars in Thousands)

		*1974
Sales, earnings and dividends	Net Sales	$689,009
	Depreciation and depletion	25,658
	Interest – both short and long-term	18,445
	Earnings before extraordinary items	47,712
	Per common share	7.10
	Extraordinary items, net of taxes	14,608
	Net earnings (loss) per common share	9.38
	Dividends declared per share	
	Preferred	1.50
	Common	2.25
Property and plant	Property and plant – gross	$634,033
	Accumulated depreciation and depletion	317,097
	Additions to property and plant	36,992
	Maintenance and repair expense	45,861
Working capital and cash flow	Working capital at end of year	$133,045
	Ratio – current assets to current liabilities	1.9 to 1
	Cash flow per common share	$13.93
Provision	Provision for estimated charges of an extraordinary nature	$ 15,985
Long-term debt		$134,833
Minority interest		$ 6,502
Shareholders' equity	Capital stock – preferred	$ 31,078
	– common	88,626
	Retained earnings	125,943
	Total	$245,647
	Book value per common share	$29.66
Shares outstanding	Preferred	1,243,119
	Common	7,233,604

*1974 – Reflects consolidation of Bobois Ltée and Lauenburger Wellpappenwerk GmbH from July 1974 and Dorchester Electronics Limited from December 1974.

*1973	*1972	1971	1970	1969	*1968	*1967	*1966	*1965
$497,683	$348,055	$343,362	$353,944	$348,087	$295,472	$242,198	$234,485	$151,727
21,500	16,534	17,942	19,241	20,492	18,538	13,663	11,387	6,618
14,518	10,573	12,773	13,523	11,960	10,012	4,754	2,980	393
19,870	6,181	127	274	10,239	12,811	17,473	20,793	16,940
2.74	0.55	(0.45)	(0.42)	1.23	1.69	2.48	3.05	2.86
(900)	63	(49,885)	(12,339)	—	(4,950)	(460)	(315)	—
2.60	0.56	(8.70)	(2.30)	1.40	1.36	2.40	3.00	2.86
3.38	1.12	—	1.50	1.50	1.50	1.50	0.38	—
—	—	—	0.50	1.00	1.00	2.00	2.10	2.10
$611,733	$500,175	$515,915	$509,947	$507,999	$487,044	$448,160	$389,086	$233,870
298,617	245,173	241,660	227,569	213,048	197,836	171,423	161,883	122,980
30,242	14,968	10,516	22,948	25,730	16,234	63,601	56,618	23,945
29,724	19,809	17,946	19,751	19,360	16,747	13,046	13,410	8,382
$ 81,066	$ 77,303	$ 82,519	$ 88,399	$111,155	$110,016	$ 47,200	$ 93,101	$ 49,707
1.7 to 1	2.0 to 1	2.1 to 1	2.1 to 1	3.0 to 1	3.1 to 1	1.5 to 1	3.1 to 1	2.1 to 1
$7.52	$3.51	$2.36	$3.24	$5.33	$5.33	$6.37	$7.48	$4.97
$ 15,543	$ 18,820	$ 33,100	$ —	$ —	$ —	$ —	$ —	$ —
$144,612	$132,854	$151,002	$161,466	$171,011	$160,985	$117,477	$ 97,092	$ —
$ 19,676	$ 6,394	$ 6,315	$ 6,000	$ 6,334	$ 6,289	$ 6,169	$ 19,955	$ 1,923
$ 47,229	$ 47,229	$ 47,229	$ 47,229	$ 47,229	$ 47,229	$ 47,229	$ 33,138	$ —
42,091	39,518	39,337	39,337	38,425	36,543	36,543	36,543	36,543
80,929	68,344	64,216	113,924	130,828	128,239	125,648	123,552	118,791
$170,249	$155,091	$150,782	$200,490	$216,482	$212,011	$209,420	$193,233	$155,334
$19.52	$17.21	$16.67	$25.36	$28.21	$27.85	$27.41	$27.05	$26.25
889,144	1,889,144	1,889,144	1,889,144	1,889,144	1,889,144	1,889,144	1,325,514	—
301,804	6,059,604	6,042,604	6,042,604	6,000,554	5,917,818	5,917,817	5,917,812	5,917,811

1973 – Reflects consolidation of Dominion Glass Company Limited from April 1, 1973.
1972 – Reflects divestment of the U.S. tissue division.

*Years preceding 1972 reflect consolidation of the following:
*1968 – Overseas division;
*1967 – Components of U.S. tissue division in addition to that acquired in 1965;
*1966 – Bathurst Paper Limited;
*1965 – Initial component of U.S. tissue division.

Directors

The Hon. John B. Aird, Q.C.
Senior Partner,
Aird, Zimmerman & Berlis,
Toronto, Ont.

Edward G. Byrne, Q.C.
A company director,
Tucker's Town, Bermuda

Peter D. Curry
President & Chief
Operating Officer,
Power Corporation of Canada,
Limited, Montreal, Que.

Paul Desmarais
Chairman and
Chief Executive Officer,
Power Corporation of Canada,
Limited, Montreal, Que.

Edward A. Galvin
Chairman of the Board,
Canadian Industrial Gas &
Oil Ltd., Calgary, Alta.

G. Arnold Hart
Chairman of the Board,
Bank of Montreal,
Montreal, Que.

Richard A. Irwin
Chairman of the Board of
the Company,
Montreal, Que.

Herbert H. Lank
Director,
Du Pont of Canada Limited,
Montreal, Que.

A. Searle Leach
Chairman of the Board,
Federal Industries Ltd.,
Winnipeg, Man.

Anson C. McKim
A company director,
Montreal, Que.

A. Deane Nesbitt
President and
Chief Executive Officer,
Nesbitt, Thomson and Company,
Limited, Montreal, Que.

Jean Parisien
Senior Deputy Chairman,
Power Corporation of Canada,
Limited, Montreal, Que.

Lucien G. Rolland
President and General Manager,
Rolland Paper Company,
Limited, Montreal, Que.

Jean Simard
Vice-President, Simcor Inc.,
Montreal, Que.

E. A. Thompson
President and
Chief Executive Officer,
Dominion Glass Company
Limited, Montreal, Que.

Peter N. Thomson
Deputy Chairman,
Power Corporation of Canada,
Limited, Montreal, Que.

William I. M. Turner, Jr.
President and Chief Executive
Officer of the Company,
Montreal, Que.

Executive Committee

Paul Desmarais, Chairman
The Hon. John B. Aird, Q.C.
G. Arnold Hart
Richard A. Irwin
Herbert H. Lank
A. Deane Nesbitt
William I. M. Turner, Jr.

Audit Committee

A. Searle Leach, Chairman
G. Arnold Hart
Anson C. McKim

Remuneration Committee

The Hon. John B. Aird, Q.C., Chairman
Paul Desmarais
Herbert H. Lank

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Officers

Richard A. Irwin
Chairman of the Board

William I. M. Turner, Jr.
President and
Chief Executive Officer

John D. Andrew
Vice-President,
Pulp and Paper

A. F. Desmond Campbell
Vice-President, Finance
and Treasurer

Edgar H. Gibson
Vice-President, Container Division

Norman A. Grundy
Vice-President, Planning
and Systems

Edwin S. Kirkland
Assistant Secretary

James G. MacLeod
Vice-President, Woodlands

The Hon. Maurice Sauvé, P.C.
Vice-President, Administration

T. Oscar Stangeland
Vice-President, Personnel
and Secretary

John B. Sweeney
Vice-President,
Technical Development and
Environmental Affairs

Lennart M. Ulvaeus
Vice-President, Packaging

Russell W. Wilson
Assistant Treasurer

Edward H. Wilton
Assistant Treasurer

John P. Woods
Vice-President, Manufacturing

Manufacturing and Sales Organization

Consolidated-Bathurst Limited and subsidiary companies
Manufacture newsprint, kraft pulp, containerboard, boxboard, kraft paper, lumber, glass and packaging products

Production Facilities

Canada: 35
1 pulp mill, 7 pulp and paper mills
8 container plants, 4 bag plants
3 plastic container plants
4 sawmills
6 glass container plants
1 industrial glass products plant
1 electronics assembly plant

Germany: 12
3 mills, 9 container plants

Consolidated-Bathurst Pulp and Paper Limited
Manages the Company's Pulp and Paper Group

Consolidated-Bathurst Newsprint Limited
Sells newsprint in Canada and overseas markets

Consolidated Newsprint, Inc.
Sells newsprint in the United States

Consolidated Pontiac Inc.
Sells kraft pulp

Consolidated-Bathurst Paper Sales Limited
Sells kraft linerboard, corrugating medium, kraft paper and boxboard

Consolidated-Bathurst (Overseas) Limited
Distributors in the United Kingdom for Consolidated-Bathurst Newsprint Limited in the sale of newsprint and service representatives for Consolidated-Bathurst Paper Sales Limited in the sale of kraft linerboard

Gillies Bros. & Co. Ltd.
Manufactures and sells pine and spruce lumber

Bobois Ltée
Manufactures spruce lumber

Consolidated-Bathurst Packaging Limited
Manufactures and sells corrugated board shipping containers; manufactures and sells multiwall paper bags, heavy duty industrial plastic bags, polyethylene coated papers and other substrates and flexible packaging products including splicing films

Europa Carton A.G.
Manufactures and sells test linerboard, corrugating medium, folding boxboard, corrugated board and solid fibreboard shipping containers, and folding cartons in West Germany

Bremer Papier-und Wellpappen-Fabrik GmbH
Manufactures and sells test linerboard, corrugating medium and corrugated board shipping containers in West Germany

Lauenburger Wellpappenwerk GmbH
Manufactures and sells corrugated board shipping containers

Dominion Glass Company Limited
Manufactures and sells glass containers, tumblers and tableware

National Pressed Glass Limited
Manufactures and sells industrial glass products

Dorchester Electronics Limited
Assembles electronic equipment

Twinpak Ltd.
Manufactures and sells plastic squeeze tubes, bottles, boxes and other plastic containers

COVER
A truck train, operated by Chaleurs Woodlands Division, highballs along a Company road in the Gaspé forest limits. Each trip to the New Richmond linerboard mill, these truck-trains deliver approximately 22 cunits (2200 solid cubic feet) of 16-foot wood. This method of minimizing hauling expense is representative of operational efforts to control wood cost escalation.

Printed in Canada